



PRESS RELEASE

ACE HARDWARE REPORTS SECOND QUARTER 2019 RESULTS

- *Record second quarter revenues of \$1.69 billion, an increase of 6.3 percent from last year*
- *U.S. same-store-sales up 1.7 percent; Acehardware.com up 58 percent*
- *In 2019, Ace ranked "Highest in Customer Satisfaction with Home Improvement Retail Stores" according to J.D. Power, twelve out of the last thirteen years*
- *Second quarter net income of \$53.8 million, a decrease of 1.8 percent from last year*

Oak Brook, Ill. (August 21, 2019) – Ace Hardware Corporation (“Ace” or the “Company”), the largest retailer-owned hardware cooperative in the world, today reported record second quarter 2019 revenues of \$1.69 billion, an increase of \$99.8 million, or 6.3 percent, from the second quarter of 2018. Net income was \$53.8 million for the second quarter of 2019, a decrease of \$1.0 million from the second quarter of 2018.

“Significant growth from new stores, including 44 in the second quarter, solid same-store-sales growth and a 58 percent surge in revenue from acehardware.com fueled our 6.3 percent revenue increase,” said John Venhuizen, President and CEO. “Start-up expenses for our nine new Westlake Ace stores in California, increased LIFO expense and transition expenses out of two former Emery distribution centers on the east coast caused our net income to dip slightly for the quarter.”

The 1.7 percent increase in retail same-store-sales during the second quarter of 2019 reported by the approximately 3,200 Ace retailers who share daily retail sales data was the result of a 1.8 percent increase in average ticket partially offset by a 0.1 percent decrease in same-store transactions.

Revenues

Consolidated revenues for the quarter ended June 29, 2019 totaled \$1.69 billion. Total wholesale revenues were \$1.53 billion, an increase of \$58.8 million, or 4.0 percent, as compared to the prior year second quarter. Increases were noted across all departments with grilling, power tools and electrical showing the largest gains. Wholesale merchandise revenues to new domestic stores activated from January 2018 through June 2019 contributed \$58.3 million of incremental revenues during the second quarter of 2019, while wholesale merchandise revenues decreased \$11.4 million during the second quarter due to domestic stores that cancelled their membership. Wholesale merchandise revenues to comparable domestic stores increased \$44.9 million for the quarter. This net increase was partially offset by the elimination of approximately \$19.0 million of sales to ACO Inc. (“ACO”) which was fully consolidated beginning in the first quarter of 2019. This elimination was not required in 2018. The Company’s Ace Hardware International Holdings, Ltd. (“AIH”) subsidiary had a \$9.5 million decrease in wholesale revenue from the second quarter of 2018. This decrease was primarily due to having had significant sales in the second quarter of 2018 related to

hurricane rebuilding efforts in the Caribbean as well as lower sales to customers in Saudi Arabia and the UAE. Ace Wholesale Holdings LLC (“AWH”) had a \$1.9 million decrease from the second quarter of 2018 as a result of a decision to reduce the number of products available for sale to certain customers due to low profitability.

Total retail revenues for the quarter were \$158.7 million, an increase of \$41.0 million, or 34.8 percent, as compared to the prior year second quarter. Retail revenues from Ace Retail Holdings LLC (“ARH”) were \$150.8 million in the second quarter of 2019, an increase of \$41.0 million, or 37.3 percent, from the second quarter of 2018. This increase was primarily due to the inclusion of ACO which contributed \$35.2 million of this increase. The remaining increase was the result of new retail stores added by the Westlake Ace Hardware (“Westlake”) retail chain since the second quarter of 2018 coupled with a 2.4 percent increase in Westlake same-store-sales. Westlake operated 126 stores at the end of the second quarter of 2019 compared to 121 stores at the end of the second quarter of 2018. Retail revenues from Ace Ecommerce Holdings LLC (“AEH”) were \$7.9 million in the second quarter of 2019 and 2018.

Ace added 33 new domestic stores in the second quarter of 2019 and cancelled 23 stores. The Company’s total domestic store count was 4,507 at the end of the second quarter of 2019 which was an increase of 84 stores from the second quarter of 2018. On a worldwide basis, Ace added 44 stores in the second quarter of 2019 and cancelled 24, bringing the worldwide store count to 5,298 at the end of the second quarter of 2019.

Gross Profit

Wholesale gross profit for the three months ended June 29, 2019 was \$178.1 million, a decrease of \$1.6 million from the second quarter of 2018. The wholesale gross margin percentage was 11.6 percent of wholesale revenues in the second quarter of 2019, down from 12.2 percent in the second quarter of 2018. The decrease in the wholesale gross margin percentage was largely due to higher receiving costs caused by lower Retail Support Center (“RSC”) productivity from continued high employee turnover and LIFO expense.

Retail gross profit for the three months ended June 29, 2019 was \$69.3 million, an increase of \$19.9 million from the second quarter of 2018. Approximately \$14.0 million of this increase was the result of the inclusion of ACO results in the current quarter. The retail gross margin percentage was 43.7 percent of retail revenues in the second quarter of 2019, an increase from 42.0 percent in the second quarter of 2018. The increase in the gross margin percentage was a result of the inclusion of ACO results in the current quarter which carried a higher margin. For ARH, retail gross profit is based on the Company’s wholesale acquisition cost of product, not ARH’s acquisition cost which includes a markup from the Company.

Expenses

Wholesale operating expenses increased \$4.5 million, or 3.4 percent, from the second quarter of 2018. The increase is due to higher distribution costs resulting from the increased volume from higher wholesale revenues. As a percentage of wholesale revenues, wholesale operating expenses decreased to 9.0 percent of wholesale revenues in the second quarter of 2019 from 9.1 percent of wholesale revenues in the second quarter of 2018.

Retail operating expenses increased \$13.4 million, or 35.2 percent, from the second quarter of 2018. This increase was primarily due to the inclusion of ACO operating expenses of \$10.7 million as a result of consolidating ACO results beginning in the first quarter of 2019. The remaining increase was primarily due to new stores added by ARH since the second quarter of 2018. Retail operating expenses as a percentage of retail revenue increased slightly to 32.5 percent of retail revenues in the second quarter of 2019 from 32.4 percent in the second quarter of 2018.

Retail pre-opening expenses of \$3.7 million were incurred in the second quarter of 2019 primarily related to the nine vacant Orchard Supply Hardware stores in California acquired by Westlake during the quarter.

Balance Sheet and Cash Flow

Receivables increased \$23.4 million from the second quarter of 2018 due to higher sales volumes.

Inventories decreased \$16.4 million from the second quarter of 2018 due to the closure of the Portland, Maine and Pittston, Pennsylvania warehouses and an increase in the LIFO reserve due to tariffs and inflation.

Debt increased \$34.6 million versus the second quarter of 2018 as a result of capital expenditures and acquisitions.

About Ace Hardware

Ace Hardware is the largest retailer-owned hardware cooperative in the world with more than 5,200 locally owned and operated hardware stores in approximately 70 countries. In 2019, Ace ranked "Highest in Customer Satisfaction with Home Improvement Retail Stores" according to J.D. Power, twelve out of the last thirteen years. Headquartered in Oak Brook, Ill., Ace and its subsidiaries operate an expansive network of distribution centers in the U.S. and have distribution capabilities in Ningbo, China; Colon, Panama; and Dubai, United Arab Emirates. Since 1924, Ace has become a part of local communities around the world and known as the place with the helpful hardware folks. For more information, visit acehardware.com or newsroom.acehardware.com.

*Ace Hardware tied for the highest score in the J.D. Power 2019 Home Improvement Study and received the highest score in the 2007-2017 Home Improvement Retailer Satisfaction Studies of customers' satisfaction with home improvement retailers. Visit jdpower.com/awards.

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ACE HARDWARE CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited, in millions)

	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	<u>June 29, 2019 (13 Weeks)</u>	<u>June 30, 2018 (13 Weeks)</u>	<u>June 29, 2019 (26 Weeks)</u>	<u>June 30, 2018 (26 Weeks)</u>
Revenues:				
Wholesale revenues	\$ 1,528.8	\$ 1,470.0	\$ 2,827.8	\$ 2,719.0
Retail revenues	<u>158.7</u>	<u>117.7</u>	<u>238.2</u>	<u>180.8</u>
Total revenues	1,687.5	1,587.7	3,066.0	2,899.8
Cost of revenues:				
Wholesale cost of revenues	1,350.7	1,290.3	2,495.9	2,399.7
Retail cost of revenues	<u>89.4</u>	<u>68.3</u>	<u>132.1</u>	<u>102.3</u>
Total cost of revenues	<u>1,440.1</u>	<u>1,358.6</u>	<u>2,628.0</u>	<u>2,502.0</u>
Gross profit:				
Wholesale gross profit	178.1	179.7	331.9	319.3
Retail gross profit	<u>69.3</u>	<u>49.4</u>	<u>106.1</u>	<u>78.5</u>
Total gross profit	247.4	229.1	438.0	397.8
Wholesale operating expenses:				
Distribution operations expenses	47.2	42.4	89.8	80.8
Selling, general and administrative expenses	44.9	48.3	95.7	96.4
Retailer success and development expenses	46.0	42.9	81.9	75.6
Retail operating expenses	51.5	38.1	89.1	72.0
Retail pre-opening expenses	<u>3.7</u>	<u>0.2</u>	<u>4.0</u>	<u>0.7</u>
Total operating expenses	<u>193.3</u>	<u>171.9</u>	<u>360.5</u>	<u>325.5</u>
Operating income	54.1	57.2	77.5	72.3
Interest expense	(6.0)	(5.1)	(12.3)	(9.5)
Interest income	1.5	1.1	4.6	2.0
Other income, net	1.4	2.7	3.0	2.9
Income tax benefit (expense)	<u>2.8</u>	<u>(1.1)</u>	<u>3.6</u>	<u>(1.0)</u>
Net income	53.8	54.8	76.4	66.7
Less: net income attributable to noncontrolling interests	<u>0.1</u>	<u>0.3</u>	<u>0.2</u>	<u>0.4</u>
Net income attributable to Ace Hardware Corporation	<u>\$ 53.7</u>	<u>\$ 54.5</u>	<u>\$ 76.2</u>	<u>\$ 66.3</u>
Patronage distributions accrued	<u>\$ 55.0</u>	<u>\$ 51.2</u>	<u>\$ 89.5</u>	<u>\$ 75.9</u>
Patronage distributions accrued for third party retailers	<u>\$ 52.8</u>	<u>\$ 49.2</u>	<u>\$ 85.7</u>	<u>\$ 72.5</u>

ACE HARDWARE CORPORATION
CONSOLIDATED BALANCE SHEETS
(In millions, except share data)

	June 29, 2019	December 29, 2018	June 30, 2018
	(Unaudited)	(Audited)	(Unaudited)
Assets			
Cash and cash equivalents	\$ 50.2	\$ 25.6	\$ 22.7
Marketable securities	38.1	50.4	50.7
Receivables, net of allowance for doubtful accounts of \$5.6, \$6.7 and \$7.3, respectively	548.0	434.4	524.6
Inventories	961.6	931.8	978.0
Prepaid expenses and other current assets	53.2	50.4	44.0
Total current assets	1,651.1	1,492.6	1,620.0
Property and equipment, net	383.1	368.6	370.9
Notes receivable, net of allowance for doubtful accounts of \$2.1, \$2.8 and \$3.5, respectively	17.4	11.8	12.1
Goodwill and other intangible assets	97.3	94.2	99.2
Other assets	88.9	91.3	84.2
Total assets	<u>\$ 2,237.8</u>	<u>\$ 2,058.5</u>	<u>\$ 2,186.4</u>
Liabilities and Equity			
Current maturities of long-term debt	\$ 49.8	\$ 60.6	\$ 46.2
Accounts payable	907.5	748.9	938.3
Patronage distributions payable in cash	35.1	55.0	29.8
Patronage refund certificates payable	10.1	10.2	5.7
Accrued expenses	149.9	173.6	141.7
Total current liabilities	1,152.4	1,048.3	1,161.7
Long-term debt	319.6	267.1	288.6
Patronage refund certificates payable	111.7	95.6	96.7
Other long-term liabilities	84.5	79.7	78.5
Total liabilities	1,668.2	1,490.7	1,625.5
Member Retailers' Equity:			
Class A voting common stock, \$1,000 par value, 10,000 shares authorized, 2,700, 2,719 and 2,710 issued and outstanding, respectively	2.7	2.7	2.7
Class C nonvoting common stock, \$100 par value, 6,000,000 shares authorized, 4,932,459, 4,648,554 and 4,728,387 issued and outstanding, respectively	493.2	464.8	472.8
Class C nonvoting common stock, \$100 par value, issuable to retailers for patronage distributions, 259,486, 439,591 and 223,122 shares issuable, respectively	26.0	44.0	22.3
Contributed capital	18.6	18.5	18.4
Retained earnings	13.7	24.8	26.2
Accumulated other comprehensive income (loss)	0.6	(1.2)	4.7
Equity attributable to Ace member retailers	554.8	553.6	547.1
Equity attributable to noncontrolling interests	14.8	14.2	13.8
Total equity	569.6	567.8	560.9
Total liabilities and equity	<u>\$ 2,237.8</u>	<u>\$ 2,058.5</u>	<u>\$ 2,186.4</u>

ACE HARDWARE CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited, in millions)

	Six Months Ended	
	June 29, 2019 (26 Weeks)	June 30, 2018 (26 Weeks)
Operating Activities		
Net income	\$ 76.4	\$ 66.7
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	29.1	25.0
Amortization of deferred financing costs	0.2	0.2
(Gain) loss on the disposal of assets, net	(0.7)	0.1
Provision for doubtful accounts	0.4	-
Other, net	(0.1)	0.5
Changes in operating assets and liabilities, exclusive of effects of acquisitions:		
Receivables	(121.6)	(129.1)
Inventories	(2.7)	(190.8)
Other current assets	0.2	(2.5)
Other long-term assets	(9.6)	9.3
Accounts payable and accrued expenses	125.2	228.1
Other long-term liabilities	4.8	9.6
Deferred taxes	(3.6)	0.3
Net cash provided by operating activities	<u>98.0</u>	<u>17.4</u>
Investing Activities		
Purchases of marketable securities	(16.1)	(5.7)
Proceeds from sale of marketable securities	32.1	4.8
Purchases of property and equipment	(32.9)	(36.3)
Cash paid for acquired businesses, net of cash received	(19.0)	(18.5)
Increase in notes receivable, net	(5.7)	(2.8)
Proceeds from sale of assets	1.0	0.1
Other, net	(0.3)	(0.1)
Net cash used in investing activities	<u>(40.9)</u>	<u>(58.5)</u>
Financing Activities		
Net borrowings under revolving lines of credit	33.0	111.0
Principal payments on long-term debt	(5.9)	(5.0)
Payments of debt issuance costs	(1.3)	-
Payments of cash portion of patronage distribution	(51.3)	(58.0)
Payments of patronage refund certificates	(5.3)	(6.4)
Repurchase of stock	(2.1)	(1.3)
Purchase of noncontrolling interests	(0.2)	-
Other, net	0.6	0.5
Net cash (used in) provided by financing activities	<u>(32.5)</u>	<u>40.8</u>
Increase (decrease) in cash and cash equivalents	24.6	(0.3)
Cash and cash equivalents at beginning of period	25.6	23.0
Cash and cash equivalents at end of period	<u>\$ 50.2</u>	<u>\$ 22.7</u>
Supplemental disclosure of cash flow information:		
Interest paid	<u>\$ 12.4</u>	<u>\$ 9.5</u>
Income taxes paid	<u>\$ 0.7</u>	<u>\$ 0.9</u>